BRA
836

BOSTON PUBLIC LIBRARY

MEMORANDUM JUNE 25, 1991

TO: Asian Community Development Corporation Board and Jacquie Kay, President

FROM: Ting-Fun Yeh, Project Manager, Boston Redevelopment Authority

SUBJECT: Update on Chinatown Parcel B Oak Street Village Housing Project

---

SUMMARY: This memorandum presents an update on key issues concerning the financing strategy and related course of action that have been recently reviewed with members of the Board of Directors of the Asian Community Development Corporation and consultants. The ultimate goal is to ensure that the Oak Street Village Project on Parcel B along with the Mei Wah Village-Phase I Project on Parcel A will remain on course to provide immediate relief to the severe shortage in affordable housing that has long afflicted the Chinatown community.

"The question is 'how', not 'whether'."

The dual objective is to have Phase I of the multi-phase development plan proposed by the Chinese Economic Development Corporation (CEDC) for Parcel A, the Mei-Wah Village Project, and the single-phase development plan proposed by the Asian Community Development Corporation (ACDC) for Parcel B, the Oak Street Village Project, readied for approximately the same starting point this Fall. Altogether about 100 to 119 units, of which over 75 percent are to be affordable, should begin construction to address the persistent overcrowding problem which has been further compounded by the aging housing stock in Chinatown. Accompanied by the proposed improvements in open space and surrounding streets, these two major housing initiatives are significant steps in improving the quality of life for the Chinatown community.

I 80 Units or 100 Units

A 100-unit mixed-income housing scheme developed for Parcel B has been filed with the State for the annual allocation of Low Income Housing Tax Credits (LIHTC), and with the AFL-CIO Housing Investment Trust for taxable financing. In view of the potentially insurmountable difficulties in executing this preferred 100-unit scheme, a back-up scheme for around 80 units that are predominately affordable to family households will be readied for immediate execution if needed.

Based on funding and other financing constraints identified below, the 100-unit scheme on Parcel B will be further revised to reduce Section 8 low-income units from 40 to 30 units while increasing the restricted-income units from 30 to 40 units. This revised income-mix, which retains 70 percent affordability, is preferred based on marketing concerns.

II City/BRA/State Resources

		Parcel A-Phase I	Parcel B
Units	PFD/BHA Section 8 PBAs	10 (as proposed)	20 (as revised)
	Section 8 certificate holders	0 (as proposed)	10 (as revised)
	Restricted Income	9 (as proposed)	40 (as revised)
	Market rate	- (as proposed)	30 (as proposed)
Funds	Parcel 18-Lincoln contributions	250K	250K
	BRA/PWED Grants	50K	50K
	NEMC-1C upfront contributions	76K	76K
	City Capital Funds	Applicable	Applicable
	State CDAG	-	500K
	Annual Teradyne UDAG payment	-	151,600
	NHT Housing Linkage	-	TBD

The funding allocation necessary to support and enhance the financial viability of the impending development planned for Parcels A and B respectively also has to optimize the limited resources with best timing. Equitable access to city resources, which is important to the subsequent development phases planned for Parcel A, can be achieved with future resources targeted to Chinatown, such as the balance of the housing linkage payments to be generated by the New England Medical Center (NEMC) 1C Phase I-North and South Buildings. The 20 percent upfront contributions from the NEMC 1C-Phase I projected here are based on a 252,000 gross square foot project in accordance with the 1990 NEMC Master Plan. Being the first project to be developed, 152,000 gross square feet is subjected to the linkage requirements after the initial deduction of 100,000 gross square feet. The total housing linkage payments generated by the NEMC 1C-Phase I project should have a nominal value around $760,000.

Presently, the Public Facilities Department (PFD), acting on behalf of the Boston Housing Authority (BHA), is expected to decide on the allocation of a total of 130 Section 8 Project Based Assistance (PBA) units. 30 of these should be approved to support affordable housing in Chinatown, assuming 10 for Parcel A and 20 for Parcel B. Under review also are the closing documents which will trigger the release of $1 million contributions to be equally shared by the Chinatown and the Roxbury communities under the Parcel 18-One Lincoln Street Parcel-to-Parcel Project. Action by City Council is expected in July.

The matching Community Development Action Grant (CDAG) that has been approved by the State for the Parcel B project will help fund the central courtyard serving the tenants as well as the Oak Street plaza open to the community. In addition, the Office of Capital Planning have committed funds to complement the affordable housing development on Parcels A and B with roadway, sidewalk and streetlight improvements. Specifically, to complete the parcelization of Parcels A and B will entail initially the realignment and reconstruction of a section of Pine Street, Maple Street and the corner of Washington Street and Marginal Road. Further improvement of sidewalks and street lights will follow later in the development phase.

The Parcel B housing project will be supported with the assignment of the annual repayment of Urban Development Action Grant (UDAG) from the Teradyne Project, which requires first the approval of the city's Neighborhood Development Fund (NDF). In addition, by the end of 1991, about $1.4 million in housing linkage monies should be available for affordable housing development in the city. The Oak Street Village project will be advocated for top priority in funding consideration by the Neighborhood Housing Trust (NHT). Depending on the outcome of the State budget review on the conditional funding reservation of R-DAL commitments, the linkage requirement could be significantly reduced. Under the current financing plan, linkage funds contribute to both development capital and operating subsidies.

III AFL-CIO Financing

The AFL-CIO Investment Program, which includes the AFL-CIO Housing Investment Trust and the AFL-CIO Building Investment Trust, will make available $200 million for economic development projects and $400 million for affordable housing development projects under its new Local Housing Partnership Project and State Housing Partnership Project, both of which were recently approved by Trust participants and the Securities and Exchange Commission. The Oak Street Village Project is presented to the AFL-CIO as the first priority project sponsored by the BRA for both construction and permanent loans.

IV Syndication and Annual Allocation of Low Income Housing Tax Credits (LIHTC)

Raising the syndication proceeds for development equity will be a major challenge due to a number of factors. In addition, the competition for the $3.1 million 1991 LIHTC set-aside for Production Projects with taxable financing is expected to be fierce. The 70 affordable units under the 100-unit plan will require an annual allocation of $1.18 million. An annual credit allocation will also be required for 19 affordable units proposed for the Parcel A - Phase I development.

To support further the application for an LIHTC allocation which is crucial for either the 100-unit plan or a predominantly affordable 80-unit back-up scheme, the BRA will facilitate an on-site briefing to the Governor's Office.

V Seed Monies

BRA staff will work with the ACDC team to gain the timely release of the balance of the loan previously approved by the Community Economic Development Assistance Corporation (CEDAC) for technical assistance, front money and site control. In addition, staff will also seek BRA Board approval on advancing seed monies based on an approved development and pre-development budget to ensure that this important housing initiative will remain on course.

A (Partial) Check List for Follow-up Steps and Bench Marks

- To be further reviewed and amended.

June	Application for the 1991 LIHTC
	Application for the AFL-CIO financing
	Approval of the Woo and Williams' Joint Venture Agreement
	Amendment of the financing plans for both the preferred and back-up schemes
	Review and affirmation of the development and pre-development budget
	PFD/BHA decision on Section 8 PBAs
July	Submission of an amended plan for the LIHTC application, if appropriate
	On-site briefing for the Governor's Office
	NHT Support to help obtain the timely release of CEDAC loan
	BRA Board approval of the advance on seed monies
	Parcel delivery plans
	Design development
	Resolution on off-site parking
	City Council action on the Parcel-to-Parcel Linkage Project
Aug.	State decision on LIHTC
	Execution of the back-up plan, if appropriate
	Development review and zoning approval
Aug./Sept.	Development of working drawings
	Final designation
	NHT approval of linkage funds
	Approval of the UDAG assignment
Oct.	Closing on the construction loan
Oct./Nov.	Construction begins

RE: Notes on Chinatown Parcel B Project Meeting, June 14

The meeting was attended by the Director, J.Campbell, T.O'Malley, K.Walsh and T.Yeh from the BRA, along with Jill Cheng (Cheng & Sui [wholesale] Bookstore on West Street), Neil Chin (Chinatown Resident and CNC member), Paul Lee (Project Attorney, Goodwin, Proctor & Hoar) and Anna Yee (Suffolk Court translator and Lexington resident) from ACDC and its consultants, Peter Munkenbech and Swan Oey from Community Builders,Inc.(CBI).

"The question is 'how', not 'whether'."

I <u>80 Units or 100 Units</u>

- An 100-unit mixed-income housing plan is filed with the State for the annual allocation of Low Income Housing Tex Credits (LIHTC) and with the AFL-CIO Housing Investment Trust for taxable financing. This preferred plan will be <u>backed up</u> by a predominantly affordable 80-unit alternative plan with either taxable or tax-exempt financing.

- The goal is to have the multi-phase Parcel A (Mei-Wah Village) development plan opted by CEDC and the single-phase Parcel B (Oak Street Village) development plan opted by ACDC readied for the <u>same starting point</u> in October. Altogether about 100 to 119 units, of which over 75 percent are to be affordable, will provide some immediate relief to the severe shortage in affordable housing that has long afflicted Chinatown.

- Based on funding and other financing constrains identified below, the 100-unit plan will be further revised to reduce Sect.8 low-income units from 40 to 30 units while increasing the restricted-income units from 30 to 40 units. This revised income-mix, which retains 70 percent affordability, is preferred by the ACDC Board since the restricted-income units allow the developer to exert more control in marketing.

- To be prepared for the potential set-back in executing the preferred 100-unit scheme, an alternative plan for around 80 units will be simultaneously tested for financial viability under different scenarios to maximize affordable family-units.

  <The preliminary design scheme proves adaptable to the back-up plan, since it has allocated most of the 1- and 2-bedroom units on the upper floors in the 10-storied tower component facing Washington Street. From the 5th floor up, each alternate floor in the tower houses 6 1-br units or 6 2-br units totalling 36 units. CBI is currently testing financial feasibility through floor-by-floor reduction.>

II City/BRA/State Resources		Parcel A-Phase I	Parcel B
Units	PFD/BHA Sect.8 PBAs	10 (as proposed)	20 (as revised)
	Sect.8 floating certificates	0 (as proposed)	10 (as revised)
	Restricted Income	9 (as proposed)	40 (as revised)
	Market rate	- (as proposed)	30 (as proposed)
Funds	Parcel 18-Lincoln contributions	250K	250K
	BRA/PWED Grants	50K	50K
	NEMC-1C upfront contributions	76K	76K
	City Capital Improvement'91	500K (appr.)	-
	State CDAG	-	500K
	Annual Teradyne UDAG payment	-	151,600
	NHT Housing Linkage	-	TBD

- PFD/BHA is expected to decide on the allocation of a total of 130 Section 8 Project Based Assistance units, 30 of these should be targeted to support affordable housing in Chinatown assuming 10 for Parcel A and 20 for Parcel B.

- Currently under review are the closing documents which will trigger the release of $1 million contributions to be equally shared by the Chinatown and the Roxbury communities under the Parcel 18-One Lincoln Street Parcel-to-Parcel Project. Action by City Council is expected in July.

- The 20 percent upfront contributions from the NEMC 1C North and South Projects are based on a 252,000 gross square feet project covered in the 1990 NEMC Master Plan. Being the first project to be developed, 152,000 gross square feet is subjected to the linkage requirements after the initial deduction of 100,000 gross square feet.

- The Community Development Action Grant approved by the State for Parcel B will fund the housing courtyard and the Oak Street plaza facing the community center, among other site clearing and improvement works.

- The capital improvements funds budgeted by the City for 1991 will support the street reconstruction to complete parcelization for Parcel A (including the Phase 1 in-fill site) and Parcel B. Additional capital funds are budgeted for sidewalk improvements along Marginal Road, Washington Street and Oak Street upon completion of development.

- To assign the UDAG payment from the adjacent Teradyne Project will first require the approval of the city's Neighborhood Development Fund composed of the directors from the BRA, the EDIC, and the PFD.

- By the end of 1991, it is expected that a maximum about $1.4 million in housing linkage monies would be available to support affordable housing development. The Oak Street Village project will be advocated for top priority in funding consideration. [The Senate budget approved language resurrecting the conditional funding reservation of R-DAL commitments. If adopted in the State budget, the linkage requirements will be significantly reduced.]

- To keep the project on course, BRA will advance on seed monies based on an approved pre-development budget. BRA will also work with ACDC to gain the timely release of the balance of the CEDAC loan, $147,000. Previously CEDAC Board has approved the release of $25,000 upon receiving linkage commitment from the NHT.

III AFL-CIO Financing

- The AFL-CIO Investment Program, which includes the AFL-CIO Housing Investment Trust and the AFI-CIO Building Investment Trust, will make available $200 million for economic development projects and $400 million for affordable housing development projects under its new Local Housing Partnership Project and State Housing Partnership Project, both of which were recently approved by Trust participants and the Securities and Exchange Commission.

- The Oak Street Village Project is the first priority amongst the 4 projects that have been submitted by BRA on behalf of the developers to AFL-CIO for both construction and permanent loans. A final determination will be made as to whether another financing entity such as MHIC should be approached for construction loan.

  <The Director stated specifically that he will take upon this task as his personal mission. An 100-unit scheme will need to replace the 80-unit scheme which was submitted to the AFL-CIO with the original package on June 13. As a State Housing Partnership Project, both CBI and BRA have assumed a 0.50% financing fees covering MHFA Seller Services but no credit enhancement. Should the project qualify as a Local Housing /Partnership Project with a loan to value ratio not exceeding 50%, it could further benefit from a direct loan from AFL-CIO. The definition and calculation of 'value' has to be established with AFL-CIO.>

IV Annual Allocation of Low Income Housing Tax Credits (LIHTC)

- The competition for the $3.1 million 1991 LIHTC set-aside for Production Projects with taxable financing is expected to be fierce. The 70 affordable units under the 100-unit plan will require an annual allocation of $1.18 million. Another $90,000 annual allocation is be required for 19 affordable units proposed for Parcel A - Phase I. With regarding tax-exempt financing, EOCD now limits credits to 100% of basis only which leads to significant increase in gap financing. *<Projects supported by BRA/City alone exceeds $3.3M according to O'Malley.>*

- For support in LIHTC allocation which is crucial for either the 100-unit plan or a predominantly affordable 80-unit plan, BRA will facilitate an on-site briefing to the Governor's Office, possibly Steve Todd and other senior staff.

V Syndication

- The current syndication plan proposed by CBI for $6.7M gross proceeds with an IRR of 19.3%, or a net equity of $0.80 (counting losses), is based on national pricing with most conservative terms of credit.

- Reportedly Mission First Financial in California has expressed an interest in 100% purchase based on an IRR of 20%. CBI is to provide BRA with the name of a contact person at Mission First. *<After learning from an outside source that Mission First is probably out of the market for direct investment, CBI has reconfirmed with Mission First its interest in the project. Bart Mitchell at CBI is the key contact person.>*

- HUD has recently formalized a cap on IRR to 16% of Present Value, a criteria which has been informally enforced for 1-1/2 years. While the National Equity Fund (NEF) has recently purchased $7.3M with 18% IRR, it is yet to be resolved how the 16% cap will effect investment interest or whether HUD will consider a project-based waiver or adjustment.

TO: Stephen Coyle, Director
Ted Chandler
Kevin Walsh

FROM: Ting-Fun Yeh

DATE: June 13, 1991

RE: Chinatown Parcel B Housing Project
- Director's Meeting with ACDC board members and consultants

ACDC board members Neil Chin, Paul Lee (also project attorney) and Anna Yee will be attending tomorrow's meeting along with Peter Munckenbeck and Swan Oey. A 'technical meeting' was called by Tom this Wednesday to discuss the project with the above members plus Jackie Kay who will also be meeting the Director with Paul Lee on Tuesday, June 18.

Density This issue/concern was not brought up at the technical meeting with ACDC. The original RFP requested a total development size of approximately 340,000 gross square feet and a FAR of 4.25. Later, zoning allows for FAR 4 or FAR 6 and up to 175' for the Residential PDA. The RFP also requested that a minimum of 220 total housing units must be provided. As currently planned/designed, the combined total for a 260-unit development on the two parcels plus the 10,000 gsf cultural center being considered by CEDC will have a floor area about 280,000 gsf and a total FAR of 3.6, or 2.8 for ACDC's Parcel B development and 4.6 for CEDC's Parcel A development.

100 or 80 units Aside from the 100-unit scheme, an 80-unit plan under a phased development scheme was briefly discussed. The ACDC board members present at the meeting indicated various degrees of interest in the 80-unit phasing scheme. They are most anxious about the 400-car garage to generate significant agency benefits (such as further reduction in rents) in addition to resident parking and savings in construction cost.

- Differences in Degree of Certainty for closing and ground breaking by end of 1991

- The possibility of developing a (nearly) 100% affordable project of 80 units.

- Additional costs for yet another revision of plan, plus the economy of scale, and financial certainty related to the delivery of the remaining units.

- Development timetable is only relative to some ACDC members. Reportedly, they would rather accept a delay in order to reach the goal of builing 100 units - a scale already reduced from earlier plan for 121 units. (After all they have already waited for 2 and a half years.)

- For flexibility and strategic positioning, ACDC is submitting an a 100-unit scheme for the 2nd spring round of LIHTC on June 14. (EOCD's decision on the competition will be issued by August 15. Application for the fall funding round is due October 16 and a decision is expected by December 1.)

Annual Credits and Syndication Proceeds The 'challenges' in these two areas, especially the former one, are fully appreciated and recognized, though not resolved. Community Builders Inc. (CBI) felt confident in raising the proceeds citing keen interest in Chinatown project demonstrated by the Mission First. The new HUD cap of 16% IRR could become an issue. As for annual credits close to 1.2 M which accounts for about 37% of the LIHTC set-aside for production project, CBI felt that the $4.3M LIHTC set-aside for the expiring-use projects could turn out to be under subscribed. (Jim pointed out later that a decision may not be made on these un-subscried set-aside credits until later in the year and the 10% rule may not be waived by the IRS as it did in 1990.)

Teradyne UDAG, Housing Linkage and NHT For the impending June 14 application for the spring round of LIHTC competition, ACDC is preparing to submit a 100-unit scheme with AFL-CIO taxable mortgage financing which requires the support of a total of $650,000 linkage monies, $250,000 upfront contributions from the Parcel 18 and One Lincoln Street Parcel-to-Parcel Project, as well as $151,600 made possible by 100% assignment of annual Teradyne UDAG payment to the project. Attached here is a comparative chart outlining several schemes studied/tested so far. Also attached here is the financing plan prepared by the Community Builders for the LIHTC application.

UDAG Assignment and 20 Sect.8 PBAs

ACDC will replace 52 Sect.8 PBAs and 8 Restricted (60% income) units as submitted for the PFD/PBAs application, with 40 Sect.8 units and 30 Restricted units. Since only a total of 30 PBAs can be expected to be allocated by PFD to the Chinatown projects, the ACDC scheme will only aim for 20 PBAs, with 10 PBAs going to CEDC's 19-unit Phase 1 project. With the 10 PBAs and based on Jim's analysis, CEDC's phase 1 project will be very competitive for debt financing without any additional funding from UDAG payments. In addition, the housing linkage payments to be generated by the NEMC 1C project will go to support the remaining phases of the CEDC developments. *(Despite its temporary set-back, it is an educated guess that the 1C project will be a "reality" in the not too distant future. The 1C linkage contributions totalling about $750 in nominal value hould be more than adequate to replace the $76K from 2/1 of annual Teradyne payment assumed by the present AFL-CIO Mei-Wah Village 50-unit scheme. I understand that there are some concerns about the political consequences for failing, even in perception, to maintain an even-handiness and fair-ness to the two projects. Nevertheless, maybe this is a time where 'leadership' is called for in order to optimize the use of limited resources with best timing. For sometime now and despite some occasional grumbling from a few, the two projects have <finally> settled down into its respective single-phase and multi-phase course of development as a result of their own strategic decision. Based on the fact that we are including a 50-unit AFLCIO scheme for CEDC Phase 2, and with care, I don't see why we should not at least try to make the case to those concerned.)*

Linkage monies and NHT Short of a final NHT vote on payment stream assignment, is it possible for the NHT to render its support for the LIHTC application through a series of follow-up steps/letters after the submission on June 14, including a letter of conditional, non-collateralized assignment? Meanwhile, CBI is still hopeful that the R-DAL amendment proposed by Bulger's office will be adopted in the budget around July 1.

cc: T. O'Malley, J. Campbell

FINANCING SOURCES	AFL-CIO TAXABLE				MHFA TAX-EXEMPT	
	*BRA**	*BRA*	*CBI**	*CBI/LIHTC**	*BRA*	
TOTAL UNITS	**A1- 80**	**A2-100**	**A3-100**	**A4-100**	**B1-80**	**B2-80**
Affordable units (%)	48 (60%)	70 (70%)	70 (70%)	70 (70%)	48 (60%)	80 (100%)
Sect.8 (PBA/Certificates)	30 (20/10)	30 (30/10)	40 (40/0)	20 (20/20)	30(30/0)	40 (20/20)
Restricted (60% income)	18	30	30	30	18	40
Market Rate	32	30	30	30	32	0
Gross Square Feet & FAR	82000 & 2.1	108000 & 2.8				
TOTAL DEV. COSTS	**10,955,912**	**14,149,317**	**14,231,000**	**17,326,000****	**11,634,964**	
Construction cost	6,981,131	9,952,000	9,170,000	9,170,000	6,981,131	
Development cost per unit	136,900	141,500	142,300		145,437	
SOURCES OF FUNDS						
1 **Const/Permanent Loan**	**5,667,797**	**6,771,083**	**7,333,000**	**7,333,000**	**7,736,760**	
2 **BRA Land Loans (deferred)**	**800,000**	**1,455,000**	**1,000,000**	**1,000,000**	**800.000**	
3 **Net Syndication Equity**	**3,286,515**	**4,700,000**	**4,550,000**	**4,690,000**	**2,273,204**	
Gross Proceeds	**5,000,000**	**7,000,000**	**6,495,000**	**6,685,000**	**3,594,836**	
9% credits (130% of basis)	**761,191**	**1,158,829**	**1,178,638**	**1,178,994**	**-**	
IRR on Syndication		**20.19%**	**20.00%**	**19.3%**	**16.44%**	
Net Proceeds*** to LITHC	59.4%	56.89%	50.54%		61.15%	
4 **Tot. NHT linkage (NPV)**	**515,423**	**511,000**	**790,000**	**650,000**	**676,000**	
Capital Contribution	125,000	125,000	245,000	105,000	0	
Operating Subsidy****(Yr 0)	490,423	386,000	545,000	545,000	676,000	
NHT linkage per afford unit	10,700	7,300	13,091	9,286	14,000	
(NHT + 18-KB) Upfront	765,423	761,000	1,166,400	900,000	926,000	
(NHT + 18-KB) per unit	15,900	10,871	16,662	12,857	19,300	
Other Sources of Funds & Non-rental Incomes						
5 CDAG grant	500,000	same	same	same	same	
6 BRA planning grants	75,000	75,000	50,000	50,000	75,000	
7 BRA/18-KB Parcel to Parcel	250,000	same	same	same	same	
8a NDF/Teradyne UDAG (50%)	75,800	75,800	-	-	-	
8b NDF/Teradybe UDAG (100%)	-	-	151,600	151,600	151,600	
9 Tenant Parking (yr)	54,000	same	same	same	same	
10 Laundry	4,600	5,700	same	same	same	
USE OF CITY/BRA FUNDS						
Dev. Capital Contributions						
- BRA grants+18-KB	325,000	325,000	300,000	300,000	325,000	
- NHT linkage	125,000	125,000	245,000	105,000	676,000	
- Teradyne UDAG (2 yr)	151,600	151,600	303,000	303,000	0	
Escrow for Rent Subsidy Fund						
- NHT Linkage	490,432	386,000	545,000	545,000	676,000	
Subsidy Thru Year	8	8	9	9	16	
- Annual Teradyne UDAG	-	-	-	-	151,600	
Annual Operating Subsidies						
- Annual Teradyne UDAG	75,800	75,800	151,600	151,600	-	

* For a 30-yr AFL-CIO loan, CBI uses 9.5% rate and BRA uses 9.25% rate. Both includes 0.5% fee.

** TDC for the LIHTC application includes syndication and other project financing costs & fees.

*** Gross proceeds minus placement costs and services.

**** Assumes 4% annul escalation for rent and 5% escalation for operation.

MEMORANDUM

TO: KEVIN WALSH

FROM: JC JIM CAMPBELL

RE: PROPOSAL FOR MHFA TO "BUY" LINKAGE

DATE: MAY 20, 1991

CC: Director's Staff
Tom O'Malley
Antonio Torrez
Ting-Fun Yeh

Pool to spread risk
* [illegible]
- [illegible]

* income in support of bonds
* security risks shifted to the credit enhancer MHFA, FNMA, and etc.

As you requested, below is a more detailed discussion of the proposed scheme under which MHFA has indicated a willingness to use DIP Agreement payments to support project financing.

The approach proposed to MHFA is to use a pool of Linkage and UDAG Loan Repayment streams as "income" to the specific housing project. This income is used to fund an escrow account. The escrow account is then used to make annual operating subsidy payments to the project. In this way the Linkage/UDAG resources leverage substantially more capital value to the project than the NPV of the relevant payment streams. In addition, this approach mitigates many of the reservations that MHFA and their underwriters have expressed in the past relative to the use of Linkage streams.

In the past, MHFA and their bond underwriters have presented the following concerns as obstacles to the selling of linkage streams in the bond market:

1) Security - the fact that the investor is ultimately relying on residual cash flow from commercial real estate, without any collateral liens or mortgages;

2) Legal enforcibility - the lack of any clear court decision relative to the enforcibility of the DIP Agreements; and,

3) Cost of Issuance - the fact that the need to create a specific security structure for the Linkage streams would significantly increase upfront legal and trustee costs relative to the amount of money borrowed.

- income

The proposed approach addresses these concerns as follows.

By utilizing the streams as "income" in support of bonds for a specific project, the security risk is shifted from the bond purchaser to the credit enhancer (e.g. FNMA) and MHFA. This lessens concern number 1 above and greatly reduces the cost of issuance as discussed in concern number 3.

- credit enhancer

* pooling of payment instrument & contracts - Institutional vs commercial

The pooling of different forms of payment instrument (Linkage and UDAG) and of a number of payment contracts serves to reduce the security risk. One or more payees can be in default without bringing the housing project into default. Also, emphasizing Institutional Linkage streams within the pool, as opposed to streams tied to for profit commercial real estate, greatly minimizes the security concern.

Security is also significantly enhanced by the implicit "debt coverage" and "loan loss reserves" built into the proposed Escrow structure. The method of financing the Escrow Account effectively creates a coverage and reserve without having to add to the Linkage subsidy upfront to cover these requirements (as would be the case if the streams were simply borrowed against).

The legal enforcibility issue was lessened somewhat by the "reasoned" Opinion issued by Shapiro, Hays and Kelly. However, Mintz-Levin, counsel for the bond underwriters, felt that the lack of a definitive opinion based on a court decision would have to be revealed in bond marketing documentation, to the detriment of selling the bonds. This is dealt with in the proposed approach by shifting the enforcibility risk to the credit enhancer and MHFA. That risk is made acceptable to them through the pooling approach, which includes mortgage backed UDAG instruments, and through the emphasis on Institutional Linkage streams (presuming that the institutions have a longterm stake in the city and will want to maintain positive political and public relations).

Attached is a financial analysis of the Linkage/UDAG funded Escrow Account approach for Chinatown Parcel B, as proposed in concept to MHFA.

The total additional tax-exempt debt leveraged by this approach is $3,025,000.

If the linkage and UDAG streams are capitalized directly by another source, the amount of upfront money that would be needed to fund the escrow account at closing is $2,015,000.

Under the proposed MHFA approach, the total value (at a 9.6% discount rate) of Linkage streams committed to the Escrow Account would be <u>only</u> $1,675,000.

Also attached is a copy of memo from Goldman-Sachs which followed-up on my initial discussions with MHFA.

AK STREET VILLAGE
SCROW FUND ANALYSIS

ear	Year:	cons.	cons.	1	2	3	4	5	6	7	8	9	10
tarting Escrow Balance		$0	$251,960	$522,816	$506,191	$498,102	$499,430	$511,125	$534,209	$563,289	$605,558	$619,724	$593,637
eposits:	Teradyne	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600
	Bldg. 36	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Northeastern	$49,137	$49,137	$49,137	$49,137	$49,137	$49,137	$49,137	$49,137	$49,137	$49,137		
	Deaconess	$64,042	$64,042	$64,042	$64,042	$64,042	$64,042	$64,042	$64,042	$64,042	$64,042	$64,042	
	MGH	$0	$0	$0	$0	$0	$0	$0	$0	$0			
	BC	$26,856	$26,856	$26,856	$26,856	$26,856	$26,856	$26,856	$26,856	$26,856			
	BU	$12,705	$12,705	$12,705	$12,705	$12,705	$12,705	$12,705	$12,705	$12,705			
	Harvard Med	$6,041	$6,041	$6,041	$6,041	$6,041	$6,041	$6,041					
	Harvard East	$0	$0	$0	$0	$0	$0	$0					
	NEMC	$0	$0	$0	$0	$0	$0	$0	$0				
	Linkage Cap.	$0											
otal Deposits		$234,381	$234,381	$234,381	$234,381	$234,381	$234,381	$234,381	$228,340	$228,340	$188,779	$139,642	$75,600
nterest Earned (7.5%)		$17,579	$36,476	$56,790	$55,543	$54,936	$55,036	$55,913	$57,191	$59,372	$59,575	$56,952	$50,193
ayment to project as Operating Subsidy		$0	$0	$307,795	$298,013	$287,989	$277,722	$267,210	$256,451	$245,443	$234,187	$222,682	$210,928
ear End Escrow Balance		$251,960	$522,816	$506,191	$498,102	$499,430	$511,125	$534,209	$563,289	$605,558	$619,724	$593,637	$508,502
Balance if 0% inflation trending:				$506,191	$488,320	$469,842	$451,463	$433,962	$411,697	$391,614	$332,173	$220,972	$38,969

PV Deposits (9.6%) $1,674,901
PV Deposits (7.5%) $1,892,786

AK STREET VILLAGE
SCROW FUND ANALYSIS

ear	Year:	11	12	13	14	15	16	17	18	19	20
tarting Escrow Balance		$508,502	$428,985	$355,755	$289,529	$231,076	$181,218	$140,836	$110,874	$92,339	$86,306
eposits:	Teradyne	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600
	Bldg. 36	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Northeastern										
	Deaconess										
	MGH										
	BC										
	BU										
	Harvard Med										
	Harvard East										
	NEMC										
	Linkage Cap.										
otal Deposits		$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600	$75,600
nterest Earned (7.5%)		$43,808	$37,844	$32,352	$27,385	$23,001	$19,261	$16,233	$13,986	$12,595	$12,143
ayment to project as Operating Subsidy		$198,924	$186,674	$174,178	$161,438	$148,459	$135,243	$121,795	$108,121	$94,228	$80,123
ear End Escrow Balance		$428,985	$355,755	$289,529	$231,076	$181,218	$140,836	$110,874	$92,339	$86,306	$93,926
Balance if 0% inflatio		($149,418)	($343,770)	($543,614)	($748,424)	($957,619)	($1,170,553)	($1,386,516)	($1,604,726)	($1,824,326)	($2,044,378)

IPV Deposits (9.6%)
IPV Deposits (7.5%)

Memorandum

To: Paul Burbine
Robert Pyne
Michael Jacobs

From: Adam Sherman
Kenneth C. Rogozinski

Date: March 25, 1991

Subject: Update - Multi-Family Linkage Payments

RECEIVED MHFA
MAR 26 1991
DEVELOPMENT DEPT.

In today's market environment, the securitization of the BRA linkage receipts will be negatively affected by investors' perception of Massachusetts real estate and the Commonwealth's bonds. As a follow-up to our discussions during the past month, this memo highlights some of the key factors concerning the possible incorporation of linkage payments into MHFA's multi-family bond program. The following update is offered for your consideration:

Security: The basic security offered by the DIP contracts remains unchanged. Economically, the investor (or project underwriter) must rely on the residual cash receipts from specific commercial real estate developments in Boston. Although the longer track record for the timely collection of linkage is a plus, it is outweighed by the well-publicized commercial real estate problems of the Boston banks.

Legal Enforceability: It is my understanding that the BRA has furnished a legal opinion affirming the enforceability of the linkage obligation. Although the opinion is a positive step, it probably needs to be reinforced by an opinion of MHFA's general counsel and at least one of the major bond firms that services MHFA's debt offerings. Based on our recent discussions with Mudge Rose and Mintz Levin, it appears that they need a test case in order to furnish a strong enforceability opinion. With respect to marketing, disclosure of the BRA's opinion alone would be incomplete without a discussion of the factors which prohibit other counsel from reaching the same conclusion.

Structure: Because the linkage payment contract describes a fixed annuity with a stated amount and term, its present value can be structured into a debt security. Given that the linkage obligation has no lien position and that it relies on a subordinate cash flow, it might also be considered an equity type investment which may also be present valued. As equity, it can be included for syndication with an offering of low-income housing tax credits.

A third alternative which we discussed is to increase the size of the mortgage based on the receipt of the linkage payment. This would have the effect of increasing the size of any bonds issued to finance a linkage-backed mortgage. A mortgage underwriting approach would also eliminate the need to create a specific security structure for linkage, a strategy which for a relatively small linkage amount, would entail large upfront legal and trustee costs to set up the program ($100,000 estimate). Mortgage underwriting, would however, transfer the linkage payment risk to MHFA and, if applicable, MHFA's bond credit enhancement provider.

Credit Enhancement: Currently, MHFA has negotiated bond credit enhancement arrangements with two guarantors, FNMA and AGR. Because each guarantor shares the real estate risk with the Agency (and ultimately wraps the entire obligation) , it will be necessary to obtain their sign-off with respect to including the linkage payments in the mortgage underwriting. Assuming MHFA wishes to assume the primary risk

position, the guarantors may request an additional capital set-aside, additional fees or other security arrangements. For its part, the Agency may wish to consider requesting that the City of Boston or the BRA assume any financial obligations borne by the Agency in connection with a bond financing involving linkage. If this is not legally possible, the Agency might consider accepting the 'moral obligation' of these parties.

Strengthening Linkage: In addition to the underlying obligation of the city and the redevelopment authority, the Agency might also consider a structured finance approach to mitigating its risk. Some of the ideas which we have discussed in the past (and which were proposed in substance by the BRA in early 1989) include the following provisions:

Pooling: Provide that MHFA's bonds are backed by a pool of linkage payments representing several developments. It might also be provided that the Agency be secured by a joint and several pledge of the linkage pool.

Revenue coverage ratio: Provide a cash flow cushion for the pooled linkage payments allocated to the Agency's developments. For example, the BRA might provide, for example, 125% coverage with respect to MHFA bond-financed projects. Looked at another way, the Agency might wish to haircut the expected stream of linkage payments by 20% (100/125) as a conservative underwriting measure.

Pool loss reserve: Provide that the BRA provide a loss reserve equal to, for example, one year of linkage with respect to each MHFA-financed development.

Please let us know if we can be of further assistance. For your additional information, please find enclosed a more detailed memo regarding linkage as well as a term sheet for linkage-backed debt that we prepared in late 1988 and 1989.

cc: Ann F. Kaplan
Charles Carey
Greg Sandomirsky

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, Massachusetts 02111

1525 Eye Street, N.W.
Washington, D.C. 20006
Telephone: 202/293-0500
Fax: 202/466-5479

Telephone: 617/542-6000
Telex: 94-0196
Fax: 617/542-2241

MEMORANDUM

Direct Dial Number

TO: Adam Sherman
Charles Carey

FROM: Rebecca E. Kotkin
CC: Gregory A. Sandomirsky

RE: Multi-Family Linkage Payments

DATE: March 29, 1991

- -

Greg and I have reviewed the March 25, 1991 Multi-Family Linkage memorandum prepared by Adam Sherman and Ken Rogazinski along with Charles Carey's revisions. Enclosed is our suggestion for a revised section regarding Legal Enforcement. Also, please note that the second sentence of the section on revenue coverage ratio twice uses the phrase "for example."

If you have any questions or would like to discuss this further, please telephone either Greg or me.

5872G

BOSTON PUBLIC LIBRARY
3 9999 06314 864 5

Legal Enforceability: It is my understanding that the BRA has furnished legal opinions affirming the enforceability of the linkage obligations of the BRA and the housing provider, although these opinions, perhaps inadvertently, fail to address the enforceability of the obligations of the commercial real estate developers who are the ultimate source of the funds for the subsidy.

Even if the omission of this enforceability opinion were corrected, the opinion itself is a "reasoned" opinion based, in part, on the absence of any challenges to the linkage program since clarifying legislation was enacted following the Bonan decision. We are aware that Boston's linkage ordinance may still be subject to challenge. To date, no one has presented sufficient evidence to establish that commercial development actually created a shortage of housing in Boston. Without evidence of this kind, the court may find that the linkage fee is not a reasonable land-use regulation. Based on our recent discussions with Mudge Rose and Mintz Levin, it appears that a test case may be needed in order to clarify these issues definitively and allow counsel to give a "clean" opinion as to enforceability.

With respect to marketing, disclosure of the BRA's opinions will have to state that the opinion is a "reasoned" one and, perhaps, provide the basis for such reasoning. We may even have to disclose that the constitutionality of the linkage program is not free from doubt and that a successful challenge on the part of the commercial developers would adversely impact the revenues available for debt service.

5870G